

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL
STATEMENTS OF KNYSNA MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages ...6... to .27..., for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

The supplementary schedules set out on pages 28 to 36 of the financial statements are presented as additional information. These schedules have not been audited and accordingly, no opinion is expressed thereon.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 1512 of 2006, issued in Government Gazette No. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in note 1.1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in note 1.1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion, attention is drawn to the following matters:

5.1 LEAVE PROVISION

The validity and accuracy of the leave provision amount of R3 038 824 at year-end, could not be validated as the basis and assumptions used by management in the calculation thereof, could not be submitted for audit purposes.

5.2 CONTINGENT LIABILITIES

In certain instances the security provided for the municipality's employees was not cancelled upon the termination of the person's employment. The result is an overprovision for contingent liabilities of R144 000.

5.3 POLICY

The municipality has not adopted a fraud prevention policy, as is required to ensure that losses are prevented as referred to in S62(1)(d) of the MFMA.

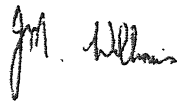
5.4 TAXATION COMPLIANCE

The municipality has not received confirmation that its regulation 2570 VAT formula has been approved by the South African Revenue Services (SARS). Management have submitted the calculation to SARS and although follow-ups are being carried out the issue is not being brought to finalisation.

The IRP 501 reconciliation as required by the fourth schedule of the Income Tax Act, was not submitted to SARS on time.

6. APPRECIATION

The assistance rendered by the staff of Knysna Municipality during the audit is sincerely appreciated.



J M Williams
for Auditor-General

Cape Town

30 November 2006



AUDITOR-GENERAL

Director: Financial Services Report

I am pleased to present the financial report for the fiscal year 2005 / 2006.

In rendering a corporate financial management service to all departments, the Finance Department's primary objective is to assist the Municipal Manager and Senior Management to manage their budgets and ensure the effective application of financial resources in rendering services to the community.

The financial statements for 2005 / 2006 have been prepared in accordance with the IMFO standards and incorporate the edicts required in Sections 122 to 125 of the Municipal Finance Management Act.

The more salient features of the Council's operating activities are dealt with below.

1. OPERATING RESULTS

Details of the operating results per department, classification and object of expenditure are included in appendices D and E. The applicable statistics are shown in appendix H. The overall operating results for the Rates & General, Housing and Trading Services for the year ended 30 June 2006 are as follows:-

INCOME	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Opening surplus	13,841,954	4,985,415		-	
Operating income for the year	174,614,698	201,682,284	15.50%	202,651,530	(0.48)%
	188,456,651	206,667,699		202,651,530	
EXPENDITURE					
Operating expenditure for year	175,115,011	189,622,065	8.28%	202,647,310	(6.43)%
Sundry transfers	8,356,225	5,247,020	(37.21)%	-	
Closing surplus	4,985,415	11,798,614	136.66 %	4,220	
	188,456,651	206,667,699		202,651,530	

The operating surplus for the year is mainly due to under expenditure, of Salaries R 5,4 m, Capital Charges R 3,9 m, General Expenses R 2,6 m and Repairs and Maintenance R 1,3 m.

All expenditure categories with the exception of Repairs and Maintenance, Capital Charges, Grant Expenditure and Contributions from Funds are within the 10 percent ratio as established by the Western Cape Provincial Government. The overall saving on Capital Charges is due to the late drawing down of 2004 / 2005 and 2005 / 2006 loans. The budgeted Contributions from Funds did not occur as the TASK salary restructuring process did not happen in 2004 / 2005. The reasons for the under expenditure/saving on Repairs and Maintenance and Grant Expenditure will be given under the relevant overall service.

The Council's accumulated surplus has increased from R 5 m to R 11,8 m during the year. The increase is due to the operating surplus of R 12,1 m and an adjustment in respect of working capital provision of R 4,5 m, as set out in Appendix E.

1.1 RATE AND GENERAL SERVICES

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	89,386,231	103,594,284	15.90%	106,655,090	(2.87)%
Expenditure	103,668,845	113,401,892	9.39%	122,280,540	(7.26)%
(Deficit)	(14,282,614)	(9,807,608)	(31.33)%	(15,625,450)	(37.23)%
(Deficit) as % of total income :	(15.98)	(9.47)		(14.65)	

Director: Financial Services Report (Continued)

The above figures indicate income realised a shortfall against budget of R 3,1 m whereas the expenditure was R 8,9 m below estimate.

The main reasons for the loss of income was in respect of collections which did not materialise due to delays with the traffic tender and a increased rebate cost on rates and refuse due to the inclusions of areas not previously rated.

The saving on expenditure was as a result of Salaries: R 4,5 m, General Expenses: R 1,6 m, Repairs and Maintenance: R,1,m, Grant Expenditure: R 1,1 m and R 1,6 m on Capital Charges. The Repairs and Maintenance under expenditure is due to improved operational practices primarily in the IT and Mechanical Workshop departments. Grant expenditure is mainly due to funding for alterations to the Finance building by means of the FMG grant being held in suspense with expenditure early in 2006 / 2007.

1.2 TRADING SERVICES

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	85,228,467	98,088,000	15.09%	95,996,440	2.18 %
Expenditure	71,446,166	76,220,173	6.68%	80,366,770	(5.16)%
Surplus	13,782,300	21,867,827	58.67%	15,629,670	39.91 %
Surplus as % of total income :	16.17	22.29		16.28	

Trading services realised an operating surplus of R 21,9 m for the year which was applied to reduce the deficit of R 9,8 m made on Rate and General Services. The results of each trading account are as follows :-

Electricity Service

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	59,155,036	67,281,922	13.74%	64,799,870	3.83 %
Expenditure	52,200,969	53,891,904	3.24%	55,878,380	(3.55)%
Surplus	6,954,067	13,390,018	92.55 %	8,921,490	50.09 %
Surplus of total income :	11.76	19.90		13.77	

The Council's bulk electricity purchases were contained within the estimate with a saving of R 0,7 m. The Council makes use of a management system to assist in the control of KVA peak demand. A surplus of R 13 m was posted for the year. See appendix H for statistical details.

Water Service

	Actual 2005 R	Actual 2006 R	Variance 2005 / 2006 %	Budget 2006 R	Variance Actual / Budget %
Income	26,073,431	30,806,078	18.15 %	31,196,570	(1.25)%
Expenditure	19,245,197	22,328,269	16.02%	24,488,390	(8.82)%
Surplus	6,828,234	8,477,809	24.16 %	6,708,180	26.38 %
Surplus as % of total income :	26.19	27.52		21.50	

Council reticulates water from its own sources. Income was up 18 % over the previous year. However, the actual yield against budget was down R 0,4 m (1%), There was an saving of R 2,1 m (8%). A surplus of R 8,5 m was posted for the year.